Calendar No. 1420

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1401

AMENDING SECTION 208 (b) OF THE TECHNICAL CHANGES ACT OF 1953 AND FOR OTHER PURPOSES

JANUARY 19 (legislative day, JANUARY 16), 1956.—Ordered to be printed

Mr. BYRD, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 2667]

The Committee on Finance, to whom was referred the bill (H. R. 2667) to amend section 208 (b) of the Technical Changes Act of 1953 (Public Law 287, 83d Cong.), having considered the same, report favorably thereon with amendments and recommend that the bill, as amended, do pass.

The amendments are as follows:

At the end of the bill add the following:

SEC. 2. Section 2053 of the Internal Revenue Code of 1954 (relating to deductions from the gross estate for expenses, indebtedness, and taxes) is hereby amended by redesignating subsection (d) to be subsection (e) and by adding after subsection (c) a new subsection as follows:

"(d) CERTAIN STATE DEATH TAXES.—

"(1) GENERAL RULE.—Notwithstanding the provisions of subsection (c) (1) (B) of this section, for purposes of the tax imposed by section 2001 the value of the taxable estate may he determined, if the executor so elects before the expiration of the period of limitation for assessment provided in section 6501, by deducting from the value of the gross estate the amount (as determined in accordance with regulations prescribed by the Secretary or his delegate) of any estate, succession, legacy or inheritance tax imposed by a State or Territory or the District of Columbia, or any possession of the United States, upon a transfer by the decedent for public, charitable, or religious uses described in section 2055 or 2106 (a) (2). The election shall be exercised in accordance with regulations prescribed by the Secretary or his delegate.

"(2) CONDITION FOR ALLOWANCE OF DEDUCTION.—No deduction shall be allowed under paragraph (1) for a State death tax specified therein unless the decrease in the tax imposed by section 2001 which results from the deduction provided for in paragraph (1) will inure solely for the benefit of the public, charitable, or religious transferees described in section 2055 or section 2106 (a) (2). In any case where the tax imposed by section 2001 is equitably apportioned among all the transferees of property included in the gross estate, including those described in sections 2055 and 2106 (a) (2) (taking into account any exemptions, credits, or deductions allowed by this chapter), in determining such decrease, there shall be disregarded any decrease in the Federal estate tax which any transferees other than those described in sections 2055 and 2106 (a) (2) are required to pay.

"(3) EFFECT OF DEDUCTION ON CREDIT FOR STATE DEATH TAXES.—See section 2011 (e) for the effect of a deduction taken under this subsection on the credit for State death taxes."

SEC. 3. Section 2011 of the Internal Revenue Code of 1954 is amended by adding after subsection (d) a new subsection as follows:

"(e) LIMITATION IN CASES INVOLVING DEDUCTION UNDER SECTION 2053 (d).—In any case where a deduction is allowed under section 2053 (d) for an estate, succession, legacy, or inheritance tax imposed upon a transfer for public, charitable, or religious uses described in section 2055 or 2106 (a) (2), the allowance of the credit under this section shall be subject to the following conditions and limitations:

"(1) The taxes described in subsection (a) shall not include any estate, succession, legacy, or inheritance tax for which a deduction is allowed under section 2053 (d).

"(2) The credit shall not exceed the lesser of—

"(A) the amount stated in subsection (b) on a taxable estate determined by allowing the deduction authorized by section 2053 (d), or

"(B) that proportion of the amount stated in subsection (b) on a taxable estate determined without regard to the deduction authorized by section 2053 (d) as (i) the amount of the taxes described in subsection (a), as limited by the provisions of paragraph (1) of this subsection, bears to (ii) the amount of the taxes described in subsection (a) before applying the limitation contained in paragraph (1) of this subsection.

"(3) If the amount determined under subparagraph (B) of paragraph (2) is less than the amount determined under subparagraph (A) of that paragraph, then for purposes of subsection (d) such lesser amount shall be the maximum credit provided by subsection (b)."

SEC. 4. The amendments to the Internal Revenue Code of 1954 made by sections 2 and 3 of this Act, and provisions having the same effect as this amendment, which shall be considered to be included in chapter 3 of the Internal Revenue Code of 1939, shall apply to the estates of all decedents dying after December 31, 1953.

Amend the title so as to read:

An Act to amend section 208 (b) of the Technical Changes Act of 1953, and for other purposes.

SECTION 1. AMENDMENT OF SECTION 208 (B) OF THE TECHNICAL CHANGES ACT OF 1953

A. PURPOSE OF SECTION 1

Section 1 of this bill amends section 208 (b) of the Technical Changes Act of 1953 by making that provision applicable to estates of decedents dying after December 31, 1947, instead of to estates of decedents dying after December 31, 1950, as provided in the Technical Changes Act.

B. GENERAL STATEMENT

Section 208 of the Technical Changes Act of 1953 permitted for estate-tax purposes the tax-free release of certain powers over a discretionary trust described in section 1000 (e) of the Internal Revenue Code of 1939, if the grantor was under a mental disability for a continuous period of not less than 3 months beginning before December 31, 1947, and ending with his death. The Technical Changes Act did not extend relief to a grantor under such a disability who died after December 31, 1947, and before January 1, 1951. This amendment would grant relief in such cases. The amendment is effective as if enacted as a part of section 208 (b) of the Technical Changes Act of 1953.

It is estimated that the revenue effect of this provision is negligible.

SECTIONS 2, 3, AND 4. AMENDMENT TO SECTIONS 2011 AND 2053 OF THE INTERNAL REVENUE CODE OF 1954

A. PURPOSE OF SECTIONS 2, 3, AND 4

Your committee has added another provision to this bill. Under present law, a deduction from the Federal estate tax is granted for bequests to charity. Under the provision added by your committee, a deduction would also be granted (subject to certain conditions and limitations) for the amount of any estate, succession, legacy, or inheritance tax imposed by a State upon the transfer by the decedent for public, charitable, or religious uses as described in section 2055 or, in the case of nonresident aliens, section 2106 (a) (2).

Last year a similar provision was reported by your committee as an amendment to H. R. 6887. That bill, as amended, was passed but was not approved by the President. In the statement announcing that he had withheld his approval, the President stated that he was sympathetic with the objectives of the bill but that there were defects in the legislation that caused him to reluctantly withhold his approval from the bill. The provisions of sections 2, 3, and 4 are designed to accomplish the same purpose as the amendment added to H. R. 6887, and your committee has been advised by the Treasury Department that the provisions of this bill meet the objections raised in the President's statement.

In the determination of taxable estates for purposes of the Federal estate tax, deductions are granted by section 2055 (and 2106 (a) (2) in cases of nonresident aliens) for bequests to charity. However, the amount of the deduction is measured by the amount the charity actually receives and not by the gross amount of the bequest. For example, if a State imposes a tax on the charitable bequest and the State tax must be paid from the charitable bequest, the estate tax charitable deduction would be limited to the amount of the bequest less the State tax paid from the bequest, and the Federal estate tax would be increased by the corresponding increase in the taxable estate of the decedent. If the additional Federal estate tax thus arising must also be paid out of the charitable bequest, the charitable deduction will, in turn, be reduced and the estate tax correspondingly increased. By this pyramiding of tax on tax, the Federal estate tax can be increased by much more than the State tax on the bequest, and the combination of these two taxes can result in the actual transfer to charity of an amount considerably less than the original bequest. Your committee's bill will prevent the pyramiding of the Federal estate tax in this manner by granting a deduction to the estate for the amount of the State death tax imposed upon a transfer for charitable purposes if the decrease in the Federal estate tax resulting from this deduction will inure solely to the benefit of a charitable transferee (but not necessarily the same charity that paid the State death tax).

B. EXPLANATION OF SECTIONS 2 AND 3

Section 2 of the bill adds a new subsection (d) to section 2053 of the Internal Revenue Code of 1954. Under subsection (d) (1), the value of the taxable estate may be determined by deducting from the value of the gross estate the amount of any State death taxes upon a transfer

(or transfers) by the decedent for public, charitable, or religious uses described in section 2055 or, in the case of nonresident aliens, section 2106 (a) (2).

Since the deduction which would be authorized by section 2053 (d) might increase the tax payable by some estates, it is provided that the decedent's personal representative must make an election to claim the deduction. The election may be made at any time prior to the time any further assessment of tax against the estate is barred by section 6501 (statute of limitations). The election would be made in accordance with regulations to be prescribed by the Secretary or his delegate. No deduction would be allowed for a State death tax imposed on a bequest to noncharitable beneficiaries.

In order to eliminate any confusion as to the amount of a State estate tax (as distinguished from inheritance, legacy, and succession taxes) which is in effect imposed upon transfers to charity, a provision in subsection (d) (1) authorizes the Secretary or his delegate to prescribe by regulations the method to be followed in allocating the portion of the State estate tax to the charitable transfers.

Under subsection (d) (2), the benefit of the deduction will inure solely to charity where the entire Federal estate tax is payable out of bequests to charity and also in cases where the State death tax is paid by charity and the Federal estate tax is equitably apportioned among all of the beneficiaries (including charity) of property included in the gross estate. The Federal estate tax is equitably apportioned among all the beneficiaries where each beneficiary is required to pay the portion of the tax which is attributable to his bequest, after taking into account any deduction or credit allowed (by the estate tax chapter of the code) with respect to that bequest in the determination of the estate tax payable. The amendment to section 2053 (d) would eliminate this pyramiding of the Federal estate tax at the expense of charity in these two types of cases.

For example, assume that the testator bequeaths $100,000 to A, $100,000 to B, and $100,000 to C, a charity, and directs that each legatee bear his proportionate share of the Federal estate tax based on the net amount of his bequest includible in the taxable estate. Assume also that State X imposes a 15-percent inheritance tax on charitable bequests. On the basis of these facts, the estate would be entitled to a deduction under this section of $15,000 and a charitable deduction of $85,000. Under the provisions of the will, the charity would pay no Federal estate tax because deductions totaling $100,000 allowed in connection with the charitable bequest have the effect of reducing the amount of the charitable bequest includible in the taxable estate to zero. A and B would each, therefore, be required to pay one-half of the Federal estate taxes. In the absence of the deduction of $15,000 allowed under this section, the charity would have been required to bear the Federal estate tax attributable to the inclusion of such amount in the taxable estate. If, on the other hand, the testator directed that A, B, and C each bear one-third of the Federal estate tax, the deduction provided for in this bill would not be allowed. In such case, the charitable deduction is not taken into account and the charity would be required to bear Federal estate tax imposed on the bequests to A and B. Thus, the requirement of the bill that the benefit inure solely to charity would not be satisfied.

Where charity pays the entire Federal estate tax, it naturally would receive all of the benefit of the deduction allowed by subsection (d) (1). It will also receive the benefit of the deduction where charity must pay the portion of the Federal estate tax attributable to the State death tax borne by it since the primary result of the deduction is the elimination of this portion of the Federal estate tax.

In the apportionment cases referred to, the noncharitable beneficiaries receive an incidental benefit by reason of the fact that the average rate of tax imposed on the taxable estate determined by allowing the deduction is lower than the average rate of tax imposed on the taxable estate determined without allowance of the deduction. This incidental benefit resulting from the lowering of the average tax rate would be disregarded in determining whether charity receives the entire benefit of the deduction.

Section 3 of this bill amends section 2011 of the 1954 code, relating to credit for State death taxes. The allowance of this deduction under section 2053 (d) makes certain changes necessary in section 2011 in order that (1) the estate does not receive a credit as well as a deduction for the same payment to a State, (2) the bequest that bears the Federal estate tax attributable to the State death tax on noncharitable transfers will receive the same benefit as under present law, and (3) the change in the method of determining the Federal estate tax will not change the application of State pickup tax laws.

Section 2011 (e) (a new subsection added by sec. 3 of this bill) provides the general rule in paragraph (1) that no credit shall be allowed for any State death tax for which a deduction has been allowed.

Section 2011 (e) (2) provides that the maximum amount allowable as a credit for State death taxes shall not exceed the amount of the credit computed without regard to section 2053 (d) which is attributable to the State death tax on the transfers other than those described in sections 2055 or 2106 (a) (2). This paragraph also provides that the credit for State death taxes shall not exceed the maximum amount that would be allowable for a taxable estate determined by allowing the deduction provided for in section 2053 (d).

Under paragraph (3) of section 2011 (e), the basic estate tax will be determined by reference to the maximum credit allowable under paragraph (2) (B) when the maximum credit allowable is the amount provided under that provision. In a case where the deduction under section 2053 (d) is allowed, the basic estate tax, which forms the basis for the application of State pickup tax laws, would be 125 percent of the maximum credit allowable as described in paragraph (2).

C. EXPLANATION OF SECTION 4

Under section 4 of this bill, the deduction allowed by section 2, together with the provisions in section 3, are considered to be included in the estate tax imposed by the Internal Revenue Code of 1939. Therefore, in the case of decedents dying after December 31, 1953, a deduction may be allowed (at the election of the executor) for the State tax imposed on bequests to charity under the same conditions and limitations that would be available in the case of a decedent dying after the enactment of the 1954 code.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no changes is proposed is shown in roman):

SECTION 208 OF THE TECHNICAL CHANGES ACT OF 1953

SEC. 208. FAILURE TO RELINQUISH A POWER IN CERTAIN DISABILITY CASES.

(a) AMENDMENT OF SECTION 811 (d).—Section 811 (d) (relating to revocable transfers) is hereby amended by inserting after paragraph (3) thereof the following new paragraph:

"(4) EFFECT OF DISABILITY IN CERTAIN CASES.—For the purposes of this subsection, in the case of a decedent who was (for a continuous period beginning not less than three months before December 31, 1947, and ending with his death) under a mental disability to relinquish a power, the term 'power' shall not include a power the relinquishment of which on or after January 1, 1940, and on or before December 31, 1947, would, by reason of section 1000 (e), be deemed not to be a transfer of property for the purposes of chapter 4."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only with respect to estates of decedents dying after December 31, [1950] *1947*.

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INTERNAL REVENUE CODE OF 1954

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SEC. 2011. CREDIT FOR STATE DEATH TAXES.

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(e) LIMITATION IN CASES INVOLVING DEDUCTION UNDER SECTION 2053 (d).—In any case where a deduction is allowed under section 2053 (d) for an estate, succession, legacy, or inheritance tax imposed upon a transfer for public, charitable, or religious uses described in section 2055 or 2106 (a) (2), the allowance of the credit under this section shall be subject to the following conditions and limitations:

(1) The taxes described in subsection (a) shall not include any estate, succession, legacy, or inheritance tax for which a deduction is allowed under section 2053 (d).

(2) The credit shall not exceed the lesser of—

(A) the amount stated in subsection (b) on a taxable estate determined by allowing the deduction authorized by section 2053 (d), or

(B) that proportion of the amount stated in subsection (b) on a taxable estate determined without regard to the deduction authorized by section 2053 (d) as (i) the amount of the taxes described in subsection (a), as limited by the provisions of paragraph (1) of this subsection, bears to (ii) the amount of the taxes described in subsection (a) before applying the limitation contained in paragraph (1) of this subsection.

(3) If the amount determined under subparagraph (B) of paragraph (2) is less than the amount determined under subparagraph (A) of that paragraph, then for purposes of subsection (d) such lesser amount shall be the maximum credit provided by subsection (b).

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SEC. 2053. EXPENSES, INDEBTEDNESS, AND TAXES

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(d) CERTAIN STATE DEATH TAXES.—

(1) GENERAL RULE.—Notwithstanding the provisions of subsection (c) (1) (B) of this section, for purposes of the tax imposed by section 2001 the value of the taxable estate may be determined, if the executor so elects before the expiration of the period of limitation for assessment provided in section 6501, by deducting from the value of the gross estate the amount (as determined in accordance with regulations prescribed by the Secretary or his delegate) of any estate, succession, legacy or inheritance tax imposed by a State or Territory or the District of Columbia, or any possession of the United States, upon a transfer by the decedent for public, charitable, or religious

uses described in section 2055 or 2106 (a) (2). The election shall be exercised in accordance with regulations prescribed by the Secretary or his delegate.

(2) CONDITION FOR ALLOWANCE OF DEDUCTION.—No deduction shall be allowed under paragraph (1) for a State death tax specified therein unless the decrease in the tax imposed by section 2001 which results from the deduction provided for in paragraph (1) will inure solely for the benefit of the public, charitable, or religious transferees described in section 2055 or section 2106 (a) (2). In any case where the tax imposed by section 2001 is equitably apportioned among all the transferees of property included in the gross estate, including those described in sections 2055 and 2106 (a) (2) (taking into account any exemptions, credits, or deductions allowed by this chapter), in determining such decrease, there shall be disregarded any decrease in the Federal estate tax which any transferees other than those described in sections 2055 and 2106 (a) (2) are required to pay.

(3) EFFECT OF DEDUCTION ON CREDIT FOR STATE DEATH TAXES.—See section 2011 (a) for the effect of a deduction taken under this subsection on the credit for State death taxes.

[(d)] (e) MARITAL RIGHTS.—

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Calendar No. 1421

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1402

CREDIT AGAINST ESTATE TAX FOR TAX ON CERTAIN PRIOR TRANSFERS

JANUARY 19 (legislative day, JANUARY 16), 1956.—Ordered to be printed

Mr. BYRD, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 7054]

The Committee on Finance, to whom was referred the bill (H. R. 7054) to amend the Internal Revenue Code of 1939 to provide a credit against the estate tax for Federal estate taxes paid on certain prior transfers, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Page 2, line 8, after " 'transferor')", insert "who was the spouse of the decedent at the time of such person's death and".

Page 2, line 8, strike out "six months" and insert "2 years".

Page 3, line 3, strike out "6 months" and insert "2 years".

PURPOSE OF BILL

This bill adds a new section 814 to the Internal Revenue Code of 1939 providing that an executor of an estate may elect to take a credit against the estate tax for the amount of tax paid on property passing to the decedent from a person who was the spouse of the decedent at the time of such person's death and who died within 2 years prior to decedent's death. Those who claim such a credit must forego any deduction for previously taxed property allowed by section 812 (c) of the 1939 code. This new election is to be available with respect to estates of decedents dying after December 31, 1951, and before August 16, 1954.

GENERAL STATEMENT

Section 812 (c) of the 1939 code provided a deduction from the gross estate for the value of property included in the decedent's gross estate which had previously been taxed as part of the estate of an individual who died within 5 years prior to the death of the decedent.

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The deduction was also available with respect to taxable gifts received by the decedent within 5 years prior to his death. To qualify for the deduction it had to be possible to trace the property in the decedent's estate to the prior descendent or donor. Moreover, no deduction for previously taxed property was allowed if the property was received from a prior decedent who was the decedent's spouse. While section 812 (e) allowed a marital deduction for an amount equal to the value of property passing from a decedent to his surviving spouse, this deduction was limited to 50 percent of the value of the adjusted gross estate of the decedent.

Numerous objections were raised to the deduction for previously taxed property under the 1939 code. These include the fact that a deduction for property taxed in a prior estate is an unsatisfactory measure of the tax previously borne by that property, the difficulties faced in attempting to comply with the "tracing" rule, and the inequity in denying any tax relief in the case of property passing to a spouse in excess of amounts for which a marital deduction can be taken. As a result Congress in the Internal Revenue Code of 1954 (sec. 2013) allowed as a credit against the decedent's tax all, or a portion, of an estate tax previously paid with respect to property transferred to the decedent witnin 10 years prior to (or 2 years after) his death. Moreover, account was taken of tax previously paid where property was included in the estate of the spouse and where the transfer to the decedent was in excess of the amount for which a marital deduction could be taken.

The credit provided in the 1954 code only applies, however, in the case of decedents dying after the effective date of the 1954 code, namely, August 16, 1954. Cases of hardship under the 1939 code have been called to your committee's attention which deserve the relief provided under the 1954 code. These are cases where a husband and wife, for example, have died within a short time of each other and where most of the estate of the first decedent passed to the spouse In such cases, to the extent the property passing to the spouse exceeded the amount which could be taken as a marital deduction, there has been a substantial diminution of estates by the successive levying of death taxes within a brief period of time. Therefore, your committee has made the credit for estate taxes paid on prior transfers available in certain cases under the 1939 code.

Your committee has made two amendments to the bill. First, the bill has been extended to cover cases in which the decedent dies within 2 years of the death of the transferor rather than within 6 months as provided in the House bill. This extension of the period to 2 years corresponds with the period for which a full credit is given under section 2039 of the 1954 code. Second, the bill has been restricted to instances in which the transferor of the property was the spouse of the decedent at the time of the transferor's death. Section 812 (c) of the 1939 code denied the deduction to property previously taxed in the case of certain transfers between spouses and this restriction imposed the hardship from which your committee believes relief should be granted.

EXPLANATION OF BILL

Subsection (a) of the new section 814 of the 1939 code provides that executors may elect to claim a credit for the Federal estate tax

paid with respect to the transfer of property to the decedent by another person who was the spouse of the decedent at the time of such person's death and who died within 2 years before the decedent's death. This is to be available only with respect to decedents dying after December 31, 1951, where the 1939 code applies. The transfer of property in this case includes property passing as the result of the exercise or non-exercise of a power of appointment. There is no need to provide for reductions in the credit (as under the 1954 code) where the prior decedent predeceased the decedent by more than 2 years, since the new section 814 of the 1939 code only applies where the prior decedent died within 2 years before the decedent.

Subsections (b), (c), (d), and (e) of the new section 814 as reported by your committee are the same in substance as the corresponding subsections of section 2013 of the 1954 code. Subsection (b) deals with the computation of the credit and in general determines the tax paid by the prior decedent which is attributable to property transferred to the decedent. Subsection (c) in general provides that the credit allowed is not to exceed the benefit the decedent would have derived from the omission of the property previously taxed from the base for his estate tax. Subsection (d) relates to the valuation of the property transferred to determine the proportion of the decedent's estate it represents. In general its value is to be its value for purposes of determining the Federal estate tax of the prior decedent reduced by any death tax paid out of this property, any obligations imposed with respect to the property transferred to the decedent, and any marital deduction claimed by the prior decedent with respect to the property transferred to the decedent. Subsection (e) provides that the term "property" includes a beneficial interest in property, including a general power of appointment.

Subsection (f), which does not correspond to any provision in the 1954 code, provides that if the executor claims the credit provided by the new section 814 of the 1939 code he may not take a deduction (under sec. 812 (c)) for property previously taxed. No such deduction is available under the 1954 code.

This bill has been reported unanimously by your committee.

Changes in Existing Law

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1939

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Chapter 3—Estate Tax

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Subchapter A—Basic Estate Tax

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PART II—ESTATES OF CITIZENS OR RESIDENTS OF THE UNITED STATES

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Subpart I—Computation of Tax

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SEC. 814. CREDIT FOR TAX ON CERTAIN PRIOR TRANSFERS.

(a) GENERAL RULE.—If the executor so elects, the tax imposed by sections 810 and 935 in the case of a decedent (but only if the decedent was a citizen or resident of the United States at the time of his death) dying after December 31, 1951, shall be credited with all or a part of the amount of the Federal estate tax paid with respect to the transfer of property (including property passing as a result of the exercise or nonexercise of a power of appointment) to the decedent by or from a person (herein designated as a "transferor") who was the spouse of the decedent at the time of such person's death and who died within 2 years before the decedent's death. The credit shall be the amount determined under subsections (b) and (c).

(b) COMPUTATION OF CREDIT.—Subject to the limitation prescribed in subsection (c), the credit provided by this section shall be an amount which bears the same ratio to the estate tax paid (adjusted as indicated hereinafter) with respect to the estate of the transferor as the value of the property transferred bears to the net estate of the transferor (determined for purposes of the tax imposed by section 935) decreased by any death taxes paid with respect to such estate and increased by the exemption provided for by section 935 (c) in determining the net estate of the transferor for purposes of the estate tax. For purposes of the preceding sentence, the estate tax paid shall be the Federal estate tax paid increased by any credits allowed against such estate tax under sections 813 (a) and 936 (b) on account of gift tax, and for any credits allowed against such estate tax under this section on account of prior transfers where the transferor acquired property from a person who died within 2 years before the death of the decedent.

(c) LIMITATION ON CREDIT.—

(1) IN GENERAL.—The credit provided in this section shall not exceed the amount by which—

(A) the estate tax imposed by sections 810 and 935 (after deducting the credits for State death taxes, gift tax, and foreign death taxes provided for in sections 810, 813, and 936) computed without regard to this section, exceeds

(B) such tax computed by excluding from the decedent's gross estate the value of such property transferred and, if applicable, by making the adjustment hereinafter indicated.

If any deduction is otherwise allowable under section 812 (d) (relating to charitable deduction) then, for the purpose of the computation indicated in subparagraph (B), the amount of such deduction shall be reduced by that part of such deduction which the value of such property transferred bears to the decedent's entire gross estate reduced by the deductions allowed under section 812 (b) (relating to deduction for expenses, losses, etc.). For purposes of this section, the value of such property transferred shall be the value as provided for in subsection (d) of this section.

(2) TWO OR MORE TRANSFERORS.—If the credit provided in this section relates to property received from two or more transferors, the limitation provided in paragraph (1) of this subsection shall be computed by aggregating the value of the property so transferred to the decedent. The aggregate limitation so determined shall be apportioned in accordance with the value of the property transferred to the decedent by each transferor.

(d) VALUATION OF PROPERTY TRANSFERRED.—The value of property transferred to the decedent shall be the value used for the purpose of determining the Federal estate tax liability of the estate of the transferor but—

(1) there shall be taken into account the effect of the tax imposed by sections 810 and 935, or any estate, succession, legacy, or inheritance tax, on the net value to the decedent of such property;

(2) where such property is encumbered in any manner, or where the decedent incurs any obligation imposed by the transferor with respect to such property, such encumbrance or obligation shall be taken into account in the same manner as if the amount of a gift to the decedent of such property was being determined; and

(3) if the decedent was the spouse of the transferor at the time of the transferor's death, the net value of the property transferred to the decedent shall be reduced by the amount allowed under section 812 (e) (relating to marital deductions) as a deduction from the gross estate of the transferor.

(e) PROPERTY DEFINED.—For purposes of this section, the term "property" includes any beneficial interest in property, including a general power of appointment (as defined in section 811 (f)).

(f) DENIAL OF DEDUCTION FOR PROPERTY PREVIOUSLY TAXED.—If the executor elects the credit provided by this section, the deduction provided by section 812 (c) shall not be allowed.

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Calendar No. 1422

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1403

AMENDMENT OF SECTION 120 OF THE INTERNAL REVENUE CODE OF 1939 RELATING TO UNLIMITED DEDUCTION FOR CHARITABLE CONTRIBUTIONS

JANUARY 19 (legislative day, JANUARY 16), 1956.—Ordered to be printed

Mr. BYRD, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 7094]

The Committee on Finance, to whom was referred the bill (H. R. 7094) to amend section 120 of the Internal Revenue Code of 1939 (relating to unlimited deduction for charitable contributions), having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE OF BILL

This bill provides that an unlimited charitable deduction is to be available for charitable and other contributions under the 1939 code where in the current year and in 8 out of 10 of the immediately preceding years the individual's contributions to charity, plus his income-tax payments, accounted for 90 percent or more of his taxable income, but only if an amount equal to any refund under this provision is paid to, or set aside for, charity. This bill entitles a taxpayer who qualifies under its provisions to secure a refund whether his claim is filed before, on, or after the date of enactment of this bill.

GENERAL STATEMENT

Under the 1939 code the 20-percent limitation on charitable contributions did not apply where the taxpayer's charitable contributions, plus his income-tax payments, in the current year and in each of the prior 10 years equaled 90 percent or more of his taxable income. Congress in its consideration of the 1954 code last year decided that this was unduly restrictive, and provided instead that the 90-percent test need be met only in 8 out of 10 of the past years. However, this provision was effective only with respect to taxable years beginning

after December 31, 1953, and ending after August 16, 1954. The test remained as 10 out of the 10 past years under the 1939 code.

Just as Congress in 1954 considered the rule of 10 out of the last 10 years to be too restrictive with respect to the future, your committee believes that this rule is unduly restrictive with respect to prior years. For that reason, your committee has extended the 8-out-of-10-year rule to all taxable years to which the 1939 code applies. However, it is provided that any refund attributable to an overpayment of tax resulting from the enactment of this bill is to be permitted only if the amount of the refund is paid immediately as a charitable contribution. If the taxpayer has died at the time the refund is made, an amount equal to the refund must, under the terms of the decedent's will, be transferred for public, charitable, or religious uses (as described in sec. 2055 of the 1954 code, which provides a deduction for charitable, etc., contributions for estate-tax purposes), and the amount so transferred must be deductible from the value of the gross estate. It is also provided in the bill that no interest is to be paid with respect to such a refund.

The amount of the refund is not to be taken into account in determining the qualification of the taxpayer for an unlimited charitable deduction for any year or any liability of the taxpayer or his estate for income or estate-tax purposes. Provision is also made for a 7-year statute of limitations in lieu of the ordinary 3-year period of limitation prescribed in section 322 (b) (1) of the 1939 code. The provisions of section 322 (b) (2) or (3) of the 1939 code do not apply to the amount of the overpayment of income tax attributable to the amendment made by the bill.

This bill has been reported unanimously by your committee.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE OF 1939

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CHAPTER 1—INCOME TAX

* * * * * * *

SEC. 120. UNLIMITED DEDUCTION FOR CHARITABLE AND OTHER CONTRIBUTIONS.

In the case of an individual if in the taxable year and [in each of the ten preceding taxable years] *in eight of the ten preceding taxable years* the amount of the contributions or gifts described in section 23 (o) (or corresponding provisions of prior revenue Acts) plus the amount of income (determined without regard to subchapter E, relating to tax on self-employment income), war-profits, or excess-profits taxes paid during such year in respect of such year or preceding taxable years, exceeds 90 per centum of the taxpayer's net income for each such year, as computed without the benefit of the applicable subsection, then the 20 per centum limit imposed by section 23 (o) shall not be applicable.

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Calendar No. 1423

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1404

AN ACT RELATING TO RECOGNITION OF GAIN OR LOSS IN CERTAIN RAILROAD REORGANIZATIONS AND TO AMEND SECTION 108 (b) OF THE INTERNAL REVENUE CODE OF 1954 AND SECTION 723 OF THE INTERNAL REVENUE CODE OF 1939

JANUARY 19 (legislative day, JANUARY 16), 1956.—Ordered to be printed

Mr. BYRD, from the Committee on Finance, submitted the following

REPORT

[To accompany H. R. 7247]

The Committee on Finance, to whom was referred the bill (H. R. 7247) to amend the Internal Revenue Code of 1954 with respect to the treatment of gain in certain railroad reorganizations, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

At the end of section 3 insert the following:

SEC. 4. Section 108 (b) of the Internal Revenue Code of 1954 (relating to income of a railroad corporation from discharge of indebtedness) is hereby amended by striking out "December 31, 1955" and inserting in lieu thereof "December 31, 1957".

SEC. 5. Section 723 of the Internal Revenue Code of 1939 (relating to equity invested capital in special cases) is hereby amended by adding at the end thereof the following new subsection:

"(c) If a recapitalization of a railroad corporation, as defined in section 77m of the National Bankruptcy Act, as amended, was effected after December 31, 1938, in pursuance of an order of the court having jurisdiction of such corporation—

"(1) in a receivership proceeding; or

"(2) in a proceeding under section 77 of the National Bankruptcy Act, as amended,

the equity invested capital of such corporation shall (at the election of the taxpayer) be the same as if the assets had been acquired in a transaction to which section 760 is applicable."

SEC. 6. The amendment made by section 5 of this Act shall be effective for taxable years beginning after December 31, 1941.

Amend the title so as to read:

An act relating to recognition of gain or loss in certain railroad reorganizations and to amend section 108 (b) of the Internal Revenue Code of 1954 and section 723 of the Internal Revenue Code of 1939.

Sections 1, 2, and 3. Recognition of Gain or Loss in Certain Railroad Reorganizations

A. PURPOSE OF SECTIONS 1, 2, AND 3

The purpose of sections 1, 2, and 3 is to add a new section 374 to the 1954 code to provide that no gain will be recognized to a railroad corporation where its properties are transferred, pursuant to a court order in a receivership proceeding or in a proceeding under the Bankruptcy Act, in a reorganization approved by the court in exchange solely for stock or securities in another railroad corporation. This establishes for railroad corporations substantially the same rule that now exists for other corporations.

6. GENERAL STATEMENT

Under section 373 of the 1954 code no loss is recognized where property of a railroad corporation is transferred pursuant to a court order in a receivership proceeding or in a proceeding under section 77 of the Bankruptcy Act to another railroad corporation organized for the purposes of effectuating a plan of reorganization approved by the court. For purposes of this provision a railroad corporation is defined in the same manner as it is defined in section 77 (m) of the Bankruptcy Act. The basis of the property in such cases is the same in the hands of the successor railroad corporation as in the hands of the railroad corporation from whom the property was acquired. A similar provision was contained in section 112 (b) (9) of the 1939 code.

It has been brought to the attention of the committee that there may be instances in such railroad reorganizations where the transfer of property in the reorganizations would result in a taxable gain. Your committee's bill, therefore, adds a new section 374, applicable to transfers after July 31, 1955, to provide that gain will not be recognized in such receivership or bankruptcy reorganizations with respect to property of the transferor corporation which is exchanged solely for stock or securities of the transferee corporation. Where, however, the transferor corporation receives not only stock or securities which are permitted to be received without the recognition of gain but also other property or money (such other property or money being commonly referred to as "boot"), no gain will be recognized to the corporation receiving such boot provided that it distributes the boot in pursuance of the plan of reorganization. If the transferor corporation does not distribute the boot pursuant to the plan of reorganization, gain will be recognized to it in an amount which does not exceed the sum of any money and the fair market value of any other property received by it but not distributed.

Your committee has also provided that the basis of the property in the hands of the transferee corporation shall be increased in the amount of gain recognized to the transferor. In general, these provisions correspond to the provisions applicable under section 371 in the case of reorganizations by corporations other than railroads in receivership, foreclosure, or similar proceedings, or in a proceeding under chapter X of the Bankruptcy Act.

Section 373 has been amended so as to limit it to transfers before August 1, 1955.

SECTION 4. EXTENSION FOR 2 YEARS OF THE APPLICATION OF SECTION 108 (B) OF THE INTERNAL REVENUE CODE OF 1954 (RELATING TO INCOME OF A RAILROAD CORPORATION FROM DISCHARGE OF INDEBTEDNESS)

A. PURPOSE OF SECTION 2

Section 4, which was added by your committee, extends for 2 years the expiration date contained in section 108 (b) of the Internal Revenue Code of 1954. Under existing law, the provisions of section 108 (b) do not apply to any discharge of indebtedness occurring in a taxable year beginning after December 31, 1955. This latter date is extended to December 31, 1957, under this provision.

B. GENERAL STATEMENT

Under section 108 (b) of the 1954 code, income from the discharge of indebtedness of a railroad corporation is excluded from gross income if the discharge is effected pursuant to a court order issued in a receivership proceeding or in a proceeding under section 77 of the Bankruptcy Act. In such cases, the basis of the property of the railroad corporation is not reduced by reason of the exclusion from gross income of the amount of income attributable to the discharge of indebtedness.

A provision corresponding to section 108 (b) was contained in section 22 (b) (10) of the 1939 code. This provision was first added to the Internal Revenue Code by the Revenue Act of 1942 effective for taxable years beginning after December 31, 1939, and before January 1, 1946. Its application was extended in subsequent revenue acts to December 31, 1954, and was further extended to December 31, 1955, by the 1954 code. Because certain railroad receivership proceedings have not yet been concluded and no court order has been issued in these cases, the bill extends the applicability of the provision so that it will also apply to any discharge of indebtedness occurring in a taxable year beginning after December 31, 1955, and before January 1, 1958.

It is estimated that the revenue effect of this provision will be negligible.

SECTIONS 5 AND 6. RAILROAD CORPORATIONS SUBJECT TO RECEIVERSHIP OR BANKRUPTCY PROCEEDINGS

A. PURPOSE OF SECTIONS 5 AND 6

This section, which was added by your committee, amends section 723 of the Internal Revenue Code of 1939 (relating to the computation of equity invested capital in special cases under the World War II excess-profits tax) to provide at the election of the taxpayer that, in the case of a recapitalization of a railroad corporation pursuant to receivership or bankruptcy proceedings, the equity invested capital is to be the same as if the corporate assets were transferred to a new corporation. Where the properties of a railroad corporation are transferred to a new corporate entity in receivership or bankruptcy proceedings, the equity invested capital is determined under section 760 of the World War II excess profits tax and reflects the basis of the

transferred assets. The treatment thus provided in the case of a new corporation results from the addition of sections 112 (b) (9) and 113 (a) (20) to the 1939 code by section 142 of the Revenue Act of 1942.

B. GENERAL STATEMENT

The report of the Senate Finance Committee accompanying the Revenue Act of 1942 (S. Rept. No. 1631, 77th Cong., 2d sess.) indicates that the purpose of the committee was to provide equal treatment whether a new corporation was organized, or the existing corporate entity was used, to effectuate the plan of reorganization. It has been brought to the attention of your committee, however, that, because of subsequent court decisions, some doubt exists that a recapitalization of an existing corporate entity in receivership or bankruptcy proceedings would be accorded as favorable treatment as where the assets are transferred to a new corporation. The adoption of this amendment thus carries out the expressed intent of the committee in connection with the changes affecting such reorganizations adopted in the Revenue Act of 1942.

Under the amendment, the equity invested capital of a railroad corporation which has been recapitalized after December 31, 1938, in pursuance of an order of the court having jurisdiction of such corporation, either in a receivership proceeding or in a proceeding under section 77 of the National Bankruptcy Act, at the election of the taxpayer will be determined in the same manner as if the assets which the corporation held immediately following the recapitalization had been transferred to a new corporation in a transaction to which section 760 of the Internal Revenue Code of 1939 is applicable. The election allowed by this section may be made under such regulations as the Secretary or his delegate may prescribe. For this purpose, all of such assets are to be considered as having been transferred to a new corporation in exchange for the stock, securities, and other liabilities existing immediately after the recapitalization. The amendment is effective with respect to taxable years beginning after December 31, 1941.

It is estimated that the revenue effect of this provision will be negligible.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman):

* * * * * * *

INTERNAL REVENUE CODE OF 1939

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SEC. 723. EQUITY INVESTED CAPITAL IN SPECIAL CASES.

* * * * * * *

(c) If a recapitalization of a railroad corporation, as defined in section 77m of the National Bankruptcy Act, as amended, was effected after December 31, 1938, in pursuance of an order of the court having jurisdiction of such corporation—

(1) in a receivership proceeding; or

(E) in a proceeding under section 77 of the National Bankruptcy Act, as amended,

the equity invested capital of such corporation shall (at the election of the taxpayer) be the same as if the assets had been acquired in a transaction to which section 760 is applicable.

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INTERNAL REVENUE CODE OF 1954

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SEC. 108. INCOME FROM DISCHARGE OF INDEBTEDNESS.

(a) SPECIAL RULE OF EXCLUSIONS.— * * *

(b) RAILROAD CORPORATIONS.—No amount shall be included in gross income by reason of the discharge, cancellation, or modification, in whole or in part, within the taxable year, of any indebtedness of a railroad corporation, as defined in section 77 (m) of the Bankruptcy Act (11 U. S. C. 205 (m)), if such discharge, cancellation, or modification is effected pursuant to an order of a court in a receivership proceeding or in a proceeding under section 77 of the Bankruptcy Act. In such cases, the amount of any income of the taxpayer attributable to any unamortized premium (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be included in gross income, and the amount of the deduction attributable to any unamortized discount (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be allowed as a deduction. Subsection (a) of this section shall not apply with respect to any discharge of indebtedness to which this subsection applies. This subsection shall not apply to any discharge occurring in a taxable year beginning after December 31, [1955] *1957*.

* * * * * * *

SEC. 357. ASSUMPTION OF LIABILITY.

(a) GENERAL RULE.—Except as provided in subsection (b) and (c), if—

(1) the taxpayer receives property which would be permitted to be received under section 351, 361, [or 371] *371, or 374* without the recognition of gain if it were the sole consideration, and

(2) as part of the consideration, another party to the exchange assumes a liability of the taxpayer, or acquires from the taxpayer property subject to a liability,

then such assumption or acquisition shall not be treated as money or other property, and shall not prevent the exchange from being within the provisions of section 351, 361 [or 371] *371, or 374*, as the case may be.

(b) TAX AVOIDANCE PURPOSE.—

(1) IN GENERAL.—If, taking into consideration the nature of the liability and the circumstances in the light of which the arrangement for the assumption or acquisition was made, it appears that the principal purpose of the taxpayer with respect to the assumption or acquisition described in subsection (a)—

(A) was a purpose to avoid Federal income tax on the exchange, or

(B) if not such purpose, was not a bona fide business purpose, then such assumption or acquisition (in the total amount of the liability assumed or acquired pursuant to such exchange) shall, for purposes of section 351, 361, [or 371] *371, or 374* (as the case may be), be considered as money received by the taxpayer on the exchange.

* * * * * * *

(c) LIABILITIES IN EXCESS OF BASIS.—

* * * * * * *

(2) EXCEPTIONS.—

* * * * * * *

(B) section [371] *371 or 374* applies.

* * * * * * *

SEC. 373. GAIN OR LOSS NOT RECOGNIZED IN CERTAIN RAILROAD REORGANIZATIONS

(a) NONRECOGNITION OF LOSS.—No gain or loss shall be recognized if property of a railroad corporation, as defined in section 77 (m) of the Bankruptcy Act (49 Stat. 922; 11 U. S. C. 205), is [transferred in pursuance] *transferred before*

August 1, 1955, in pursuance of an order of the court having jurisdiction of such corporation—

(1) in a receivership proceeding, or

(2) in a proceeding under section 77 of the Bankruptcy Act, to a railroad corporation (as defined in section 77 (m) of the Bankruptcy Act) organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding.

* * * * * * *

(b) BASIS.—

(1) RAILROAD CORPORATIONS.—If the property of a railroad corporation (as defined in section 77 (m) of the Bankruptcy Act) was acquired after [December 31, 1938] *December 31, 1938, and before August 1, 1955*, in pursuance of an order of the court having jurisdiction of such corporation—

(A) in a receivership proceeding, or

(B) in a proceeding under section 77 of the Bankruptcy Act,

and the acquiring corporation is a railroad corporation (as defined in section 77 (m) of the Bankruptcy Act) organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, the basis shall be the same as it would be in the hands of the railroad corporation whose property was so acquired.

* * * * * * *

"SEC. 374. GAINS OR LOSS NOT RECOGNIZED IN CERTAIN RAILROAD REORGANIZATIONS.

"(a) EXCHANGES BY CORPORATIONS.—

"(1) NONRECOGNITION OF GAIN OR LOSS.—No gain or loss shall be recognized if property of a railroad corporation, as defined in section 77 (m) of the Bankruptcy Act (49 Stat. 922; 11 U. S. C. 205), is transferred after July 31, 1955, in pursuance of an order of the court having jurisdiction of such corporation—

"(A) in a receivership proceeding, or

"(B) in a proceeding under section 77 of the Bankruptcy Act,

to another railroad corporation (as defined in section 77 (m) of the Bankruptcy Act) organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, in exchange solely for stock or securities in such other railroad corporation.

"(2) GAIN FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of paragraph (1) if it were not for the fact that the property received in exchange consists not only of stock or securities permitted by paragraph (1) to be received without the recognition of gain, but also of other property or money, then—

"(A) if the corporation receiving such other property or money distributes it in pursuance of the plan of reorganization, no gain to the corporation shall be recognized from the exchange, but

"(B) if the corporation receiving such other property or money does not distribute it in pursuance of the plan of reorganization, the gain, if any, to the corporation shall be recognized, but in an amount not in excess of the sum of such money and the fair market value of such other property so received, which is not so distributed.

"(3) LOSS FROM EXCHANGES NOT SOLELY IN KIND.—If an exchange would be within the provisions of paragraph (1) if it were not for the fact that the property received in exchange consists not only of property permitted by such paragraph to be received without the recognition of gain or loss, but also of other property or money, then no loss from the exchange shall be recognized.

"(b) BASIS.—If the property of a railroad corporation (as defined in section 77 (m) of the Bankruptcy Act) was acquired after July 31, 1955, in pursuance of an order of the court having jurisdiction of such corporation—

"(1) in a receivership proceeding, or

"(2) in a proceeding under section 77 of the Bankruptcy Act,

and the acquiring corporation is a railroad corporation (as defined in section 77 (m) of the Bankruptcy Act) organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, the basis shall be the same as it would be in the hands of the railroad corporation whose property was so acquired, increased in the amount of gain recognized under subsection (a) (2) to the transferor on such transfer.

"(c) ASSUMPTION OF LIABILITIES.—In the case of a transaction involving an assumption of a liability or the acquisition of property subject to a liability, the rules provided in section 357 shall apply."

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Calendar No. 1425

84TH CONGRESS, 2d Session | SENATE | REPORT No. 1405

SMALL BUSINESS ADMINISTRATION DISASTER LOANS

JANUARY 19 (legislative day, JANUARY 16), 1956.—Ordered to be printed

Mr. MORSE, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. 2960]

The Committee on Banking and Currency, to whom was referred the bill (S. 2960) to amend the Small Business Act of 1953, as amended, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

INTRODUCTION

The Small Business Act of 1953, as amended, authorizes the Small Business Administration to make regular business loans to the small businesses of the Nation. The act specifies that "not to exceed an aggregate of $150 million shall be outstanding at any one time" for this purpose. The act also authorizes the Small Business Administration to make loans to small-business men and homeowners whose properties are destroyed or damaged by floods or other catastrophes. The act specifies that "not to exceed an aggregate of $25 million shall be outstanding at any one time" for this purpose.

Since the fall of 1955, several areas of the country, particularly the Northeastern and West Coast States, and the Carolinas, have been ravaged by devastating hurricanes and floods. These disasters have caused an unprecedented volume of loans to be made from the disaster loan fund of the Small Business Administration. As of January 6, 1956, all but approximately $240,000 of the $25 million disaster loan fund had been committed to disaster victims.

The primary purpose of this bill is to replenish lending authority largely depleted by recent disaster lending and to reconstitute the nature of the lending program in such a way that emergency needs for disaster loan funds or business loan funds can be readily met.

GENERAL STATEMENT

The committee has considered several bills concerned with increasing the disaster lending authority of the Small Business Administration and with other related changes in its enabling statute. Specifically, the bills considered by the committee were S. 2775, S. 2856, S. 2866, and certain provisions of S. 2858. Because of the urgency associated with this legislation, the committee restricted testimony in open hearings to statements by sponsors of the bills and witnesses from the Small Business Administration. After study of the testimony and after careful consideration of the several bills on the subject, the committee determined to report a new bill (S. 2960) containing specific features of S. 2775, S. 2856, S. 2858, and S. 2866. Complete explanation of S. 2960 appears below.

PURPOSES

Combining the disaster-loan fund and business-loan fund and increasing the combined fund by $35 million

Section 1 of this bill amends section 204 (b) of the Small Business Act of 1953 by combining the $150 million business-loan fund with the $25 million disaster-loan fund and by increasing the total fund in the amount of $35 million. Thus, the total authorization for both business loans and disaster loans is increased from $175 million to $210 million and the overall authorization, which includes $100 million for other purposes, is increased from $275 million to $310 million.

The committee believes that without question the loan funds of the agency should be increased and is also convinced that the two funds should be combined in order to avoid the situation which developed in the fall of 1955.

As stated above, present law limits the outstanding aggregate of disaster loans to $25 million. During the month of August of 1955, a series of hurricanes struck the east coast—first in the Carolinas, then in a large portion of New England. Disaster areas were declared including the entire State of Connecticut, 3 counties in Delaware, 9 counties in Massachusetts, 12 counties in New Jersey, 6 counties in New York, 27 counties in Pennsylvania, and 1 county in Rhode Island. It became apparent to the SBA that the statutory limitation of $25 million would be inadequate if all the eligible disaster loan applicants were to be given assistance. After consultation with congressional leaders the agency decided that until the Congress could reconvene and lift this limitation, the agency would make disaster business loans from its business-loan fund at the 6 percent business loan interest rate to qualifying businesses in disaster areas. A clause was inserted in the loan authorization stating that the rate would revert to 3 percent at such time as congressional action permitted.

Under this policy the agency continued to process loan applications from disaster victims, and as of December 31, 1955, not only was the $25 million disaster fund virtually exhausted, but the agency had loaned over $10 million to disaster victims from the business loan fund, at 6 percent interest, with the understanding that these loans would be converted to 3 percent disaster loans as soon as the Congress lifted the $25 million disaster loan ceiling. Thus, as of December 31, 1955, (1) the disaster loan fund had a practical deficit of approximately $10.4 million; (2) there were disaster loan applications pending

of approximately $3.7 million; and (3) estimates of additional loans to be made in New England and to victims of recent disasters in California, Oregon, and Nevada were approximately $16.9 million. The practical deficit and reasonable estimates of immediate demands total approximately $31 million, and this does not include any estimates of demands which may be created by the present floods on the west coast or by other disasters which may occur at any time in the future.

Therefore, the $35 million increase recommended by the committee is a bare minimum amount necessary to restore the drain on the disaster loan fund caused by disasters in the last 6 months.

In its report on legislation to extend the Small Business Administration in the last session of this Congress (S. Rept. No. 405, 84th Cong., 1st sess.), this committee recommended that the disaster loan fund be combined with the business loan fund to "insure against a rapid exhaustion of disaster loan funds in the event of a series of major disasters." Although this recommendation was embodied in the bill passed by the Senate (S. 2127), this feature was not contained in the final legislation as passed by the House and agreed to by the Senate. The committee has fully reconsidered the desirability of combining these two funds and again recommends the combination.

We do not look upon this combination merely as a safety factor to insure adequate funds for disaster loans, but we view it also as a way to insure adequate funds for regular small business loans. We believe that the combination of these two funds creates a total pool of lending authority for both purposes and that such a pool of lending authority could fulfill an increased need for either disaster loans or business loans until such time as the Congress could act and determine whether the total pool should be increased. We must emphasize that this action should in no way result in a reduction in funds available for regular business loans. If such were our desire we would not recommend a $35 million increase in the combined fund.

To illustrate the present condition of the business-loan fund and the disaster-loan fund, the following table was provided by the Small Business Administration. While this table states a known deficit of $23.3 million for disaster loans, the $23.3 million figure represents only a partial assessment of the west coast damage and does not include any estimate of demands caused by disasters which may occur between January 1, 1956, and June 30, 1957. In fact, to restore the disaster-loan fund to its original size would require new funds in the amount of $48.3 million.

Small Business Administration—Estimated legislative authority requirements for disaster and business loans

[In millions of dollars]

Disaster loans:		
1. Statutory limitation		25.0
2. Estimated loan requirements:		
(a) Home and business disaster loans committed under sec. 207 (b)	24.8	
(b) Business disaster loans committed under sec. 207 (a) at 6-percent rate to be converted to sec. 207 (b) at 3 percent	10.4	
(c) Disaster loan applications pending Dec. 31, 1955	3.7	
(d) Applications received from victims of west coast floods pending Jan. 11, 1956	.7	
(e) Estimated additional applications to be received from victims of New England floods	1.2	
(f) Estimated disaster loan applications to be received from victims of west coast floods	15.0	
(g) Total estimated statutory authority required for disasters which have occurred	55.8	
(h) Estimated repayments and other credits through June 30, 1957	7.5	
(i) Net estimated requirements through June 30, 1957		48.3
3. Increase in authority required to provide for present and potential demand from past disasters		23.3
Business loans:		
Statutory limitation		150.0
2. Estimated loan requirements:		
(a) Outstanding balance as of Dec. 31, 1955	65.1	
(b) Estimated January–June 1956	21.3	
(c) Estimated, fiscal year 1957	42.6	
(d) Total through June 30, 1957	129.0	
(e) Estimated repayments and other credits	17.4	
(f) Net estimated requirements through June 30, 1957		111.6
3. Estimated balance as of June 30, 1957		38.4
Summary on basis of combined statutory limitation estimated as of June 30, 1957:		
1. Statutory limitation		175.0
(a) Disaster loan requirements (net)	48.3	
(b) Business loan requirements (net)	111.6	
		159.9
2. Estimated balance available for new disasters which may occur during remainder of fiscal year 1956 and for fiscal year 1957; and for any increase in volume of business loans over current estimates		15.1

Three percent maximum interest rate for SBA share of disaster business loans

Section 2 of this bill amends section 207 (b) (1) of the Small Business Act of 1953, as amended, to fix a maximum of 3 percent interest on disaster home loans and on the Small Business Administration's share of all disaster business loans. Under existing law the maximum interest rate for disaster home loans is 3 percent. As a matter of policy the Small Business Administration now limits its interest rate to 3 percent on direct disaster loans to small businesses and on the SBA's share of disaster loans to small businesses in which banks or

other lending institutions participate. Two bills considered by the committee, S. 2858 and S. 2866, would have limited the interest rate to a maximum of 3 percent in all disaster loans, including any portion of such loans which were made by participating banks or other lending institutions.

In testifying on these bills, the Administrator of the Small Business Administration expressed the opinion that to so limit the interest rate for participating banks would be disadvantageous to borrowers in some cases and would discourage participation by private lenders. He stated that in many instances the small-business man is able to obtain long-term refinancing of indebtedness existing prior to a disaster only if his local bank is able to participate in a disaster loan made by the Small Business Administration. The Administrator was fearful that a maximum interest rate of 3 percent applicable both to the SBA share of the loan and the private lender's share of the loan would discourage the participation by private lenders and would therefore work a hardship on many small-business men whose businesses are damaged or destroyed in disasters.

After considering this testimony and the proposals in S. 2858 and S. 2866, the committee determined to fix a 3 percent maximum interest rate only on the Small Business Administration's portion of disaster loans to small businesses. This decision was reached in the understanding that private lenders will be permitted to participate in such disaster loans at interest rates in excess of 3 percent only in those unusual cases where such participation will be advantageous to the borrower.

With this amendment to section 207 (b) (1), a statutory maximum of 3 percent interest will apply to all disaster home loans, all direct disaster loans to small businesses, and to the Administration's share of all disaster loans to small businesses made in participation with private lenders.

Increase maximum term on disaster business loans from 10 years to 20 years

Section 2 of this bill further amends section 207 (b) (1) of the Small Business Act of 1953, as amended, to permit a maximum term of 20 years on disaster loans to small businessmen. Under existing law, disaster home loans may run up to 20 years, but disaster business loans are limited to a maximum term of 10 years. One of the bills considered by the committee, S. 2858, proposed that the maximum term on disaster business loans be raised from 10 to 20 years.

The committee carefully considered this proposal and recommends that the law be changed accordingly. While we recognize that under normal conditions a 20-year term is unreasonably long for business loans, we also recognize that small-business men attempting to recover from a disaster are not experiencing normal conditions. We believe that the lower repayment schedule afforded by a longer term loan may encourage many businessmen to start anew where they would otherwise consider the situation hopeless and abandon the enterprise destroyed in the disaster. We do not suppose that all disaster victims will seek business loans at the maximum term of 20 years, nor do we suppose that all such victims would be eligible for such loans. Nevertheless, we believe that in many cases a term longer than 10 years would be desired and that the applicant would be eligible. In such

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cases a longer term should be available under the statute and we propose this amendment for this purpose.

Technical change to improve the structure of the statute

Section 3 of this bill repeals subsection (f) of section 207 of the Small Business Act of 1953, as amended, and restores the substance of this subsection to the statute as paragraph (5) of subsection 207 (b) of such act.

Section 2 of Public Law 268, 84th Congress, 1st session, an act to amend the Small Business Act of 1953, passed in the closing hours of the 1st session of the 84th Congress, inadvertently added a subsection (f) to section 207 of the Small Business Act of 1953. This subsection (f) was obviously intended to be a paragraph (5) of subsection (b) of section 207. This bill merely corrects this inadvertence and makes no substantive change thereby.

SUMMARY

In brief, this bill makes the following changes in existing law:

(1) It combines the disaster loan fund (now $25 million) of the Small Business Administration and the business-loan fund (now $150 million) into a single fund to be used for both disaster loans and business loans.

(2) It increases this total fund by $35 million, thus raising the combined fund from $175 million to $210 million.

(3) It fixes a maximum interest rate of 3 percent on (*a*) disaster home loans; (*b*) direct disaster business loans; and (*c*) the Small Business Administration's share of disaster business loans made in participation with private lenders.

(4) It fixes a maximum term of 20 years for both disaster home loans and disaster business loans.

(5) It makes a technical change in the structure of section 207 of the Small Business Act of 1953, as amended, which change has no substantive effect.

The committee wishes to stress the urgency of this legislation and to urge its prompt and favorable consideration by the Senate.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill as reported are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

SMALL BUSINESS ACT OF 1953, AS AMENDED

* * * * * * * *

SEC. 204. * * *

[(b) The Administration is authorized to obtain money from the Treasury of the United States for use in the performance of the powers and duties granted to or imposed upon it by law, not to exceed a total of $275,000,000 outstanding at any one time. For this purpose appropriations not to exceed $275,000,000 are hereby authorized to be made to a revolving fund in the Treasury. Advances shall be made to the Administration from the revolving fund when requested by the Administration. This revolving fund shall be used for the purposes enumerated subsequently in sections 207 (a), (b), (c), and (d). Not to exceed an aggre-

gate of $150,000,000 shall be outstanding at any one time for the purposes enumerated in section 207 (a). Not to exceed an aggregate of $25,000,000 shall be outstanding at any one time for the purposes enumerated in section 207 (b). Not to exceed an aggregate of $100,000,000 shall be outstanding at any one time for the purposes enumerated in sections 207 (c) and (d). The Administration shall pay into miscellaneous receipts of the Treasury at the close of each fiscal year, interest on the net amount of the cash disbursements from such advances at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding interest-bearing marketable public debt obligations of the United States of comparable maturities.]

(b) The Administration is authorized to obtain money from the Treasury of the United States for use in the performance of the powers and duties granted to or imposed upon it by law, not to exceed a total of $310,000,000 outstanding at any one time. For this purpose appropriations not to exceed $310,000,000 are hereby authorized to be made to a revolving fund in the Treasury. Advances shall be made to the Administration from the revolving fund when requested by the Administration. This revolving fund shall be used for the purposes enumerated subsequently in section 207 (a) and (b). Not to exceed an aggregate of $210,000,000 shall be outstanding at any one time for the purposes enumerated in section 207 (a) and (b) (1). Not to exceed an aggregate of $100,000,000 shall be outstanding at any one time for the purposes enumerated in section 207 (b) (2) and (b) (3). The Administration shall pay into miscellaneous receipts of the Treasury at the close of each fiscal year, interest on the net amount of the cash disbursements from such advances at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding interest-bearing marketable public debt obligations of the United States of comparable maturities.

* * * * * * *

SEC. 207. * * *

(b) The Administration also is empowered—

(1) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary or appropriate because of floods or other catastrophes, including necessary or appropriate loans to any small-business concern located in an area where a drought is occurring, if the Administration determines that the small-business concern has suffered a substantial economic injury as a result of such drought, and the President has determined under the Act entitled "An Act to authorize Federal assistance to States and local governments in major disasters, and for other purposes", approved September 30, 1950, as amended (42 U. S. C., secs. 1855–1855g), that such drought is a major disaster, or the Secretary of Agriculture has found under the Act entitled "An Act to abolish the Regional Agricultural Credit Corporation of Washington, District of Columbia, and transfer its functions to the Secretary of Agriculture, to authorize the Secretary of Agriculture to make disaster loans, and for other purposes", approved April 6, 1949, as amended (12 U. S. C., secs. 1148a–1–1148a–3), that such drought constitutes a production or economic disaster in such area: [*Provided*, That no such loan including renewals and extensions thereof may be made for a period or periods exceeding ten years except that where such loan is for acquisition or construction (including acquisition of site therefor) of housing for the personal occupancy of the borrower, it may be made for a period not to exceed twenty years and at an interest rate not to exceed 3 per centum per annum;] *Provided, That no such loan including renewals and extensions thereof may be made for a period or periods exceeding twenty years: And provided further, That the interest rate on the Administration's share of loans made under this subsection shall not exceed 3 per centum per annum;*

* * * * * * *

(3) to arrange for the performance of such contracts by negotiating or otherwise letting subcontracts to small-business concerns or others for the manufacture, supply, or assembly of such articles, equipment, supplies, or materials, or parts thereof, or servicing or processing in connection therewith, or such management services as may be necessary to enable the Administration to perform such contracts; [and]

(4) to provide technical and managerial aids to small-business concerns, by advising and counseling on matters in connection with Government procurement and on policies, principles, and practices of good management, including but not limited to cost accounting, methods of financing, business

insurance, accident control, wage incentives and methods engineering, by cooperating and advising with voluntary business, professional, educational, and other nonprofit organizations, associations, and institutions and with other Federal and State agencies, by maintaining a clearinghouse for information concerning the managing, financing, and operation of small-business enterprises, by disseminating such information, and by such other activities as are deemed appropriate by the Administration[.]; *and*

(5) to further extend the maturity of or renew any loan made pursuant to this section, beyond the periods stated therein, or any loan transferred to the Administration pursuant to Reorganization Plan Numbered 2 of 1954 for additional periods not to exceed ten years, if such extension or renewal will aid in the orderly liquidation of such loan.

* * * * * * *

[(f) To further extend the maturity of or renew any loan made pursuant to subsection (a) or (b) of this section, beyond the periods stated therein, or any loan transferred to the Administration pursuant to Reorganization Plan Numbered 2 of 1954, for additional periods not to exceed ten years, if such extension or renewal will aid in the orderly liquidation of such loan.]

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Calendar No. 1426

84TH CONGRESS, 2d Session } SENATE { REPORT No. 1406

TITLE I LOANS FOR DISASTER AREAS

JANUARY 19 (legislative day, JANUARY 16), 1956.—Ordered to be printed

Mr. SPARKMAN, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. J. 113]

The Committee on Banking and Currency, to whom was referred the joint resolution (S. J. Res. 113) to authorize Federal Housing Administration title I insured loans on new residential structures suffering disaster-connected damages, having considered the same, report favorably thereon without amendment and recommend that the joint resolution do pass.

GENERAL STATEMENT

This resolution would authorize the Federal Housing Administration to insure, under the title I program, loans made for home improvements on new residential structures without regard to the statutory requirement as to completion and period of occupancy where such structures suffered disaster-connected damage. The assistance authorized by the resolution is limited to those new (less than 6 months' occupancy) residential structures which are located in disaster areas declared by the President pursuant to section 2 (a) of the act, entitled "An Act to authorize Federal assistance to States and local government in major disasters and for other purposes," as amended (Public Law 875, 81st Cong., approved September 30, 1950).

The Housing Act of 1954 (Public Law 560, 83d Cong., approved August 2, 1954) amended prior title I legislation so as to prohibit the issuance of FHA insurance under the title I home-improvement program—

with respect to new residential structures that have not been completed and occupied for at least 6 months.

This amendment was designed to prevent the use of a title I home-improvement loan as a downpayment on a new home to be purchased by the borrower and to protect the borrowers from overburdening his ability to pay.

When the 1954 Housing Act was being considered by the Congress it was not anticipated that a disaster might occur which would materially affect the basic livability or utility of new residential structures. Since the enactment of the 1954 Housing Act, this Nation has experienced a number of devastations from the forces of nature over which man has no control. In one form or another, disasters have affected most sections of this country in the past 18 months. On August 18 and 19, 1955, Hurricane Diane caused an estimated $1,470 million of damage in the States of Connecticut, Massachusetts, Rhode Island, New Jersey, New York, and Pennsylvania. Storms, of short duration but extreme violence, have occurred in every State and the District of Columbia, with hundreds hitting the Great Plains annually. Property damage for this devastation runs into millions of dollars each year.

There follows herewith a report from the Administrator of the Housing and Home Finance Agency, dated January 16, 1956, to the chairman of the Senate Banking and Currency Committee on Senate Joint Resolution 113.

JANUARY 16, 1956.

Re Senate Joint Resolution 113, 84th Congress.

Hon. J. W. FULBRIGHT,
Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR SENATOR FULBRIGHT: This is in response to your request of January 12 for the views of this Agency on the merits of Senate Joint Resolution 113, a joint resolution to permit FHA title I repair assistance to new homes damaged by major disasters. This joint resolution was proposed by the Housing and Home Finance Agency to remove an obstacle to the full use of the FHA title I program in the current west coast flood disaster and other major disasters.

Under the present provisions of title I of the National Housing Act the FHA cannot insure lending institutions against loss on loans for the repair of new homes which have not been completed and occupied for at least 6 months. Senate Joint Resolution 113 would amend section 2 (a) of the National Housing Act to provide that this requirement shall not be mandatory where the house has been damaged by a disaster which has been determined by the President of the United States to be a major disaster.

A number of new homes occupied less than 6 months have been damaged by floods on the west coast. For example, in Yuba City, Calif., several new subdivisions composed of primarily new housing are under water, and the Federal Housing Administration has received reports of scattered cases in Oregon where new homes have been damaged by floods. The FHA has also had several requests from lenders to make title I insurance available for loans to repair this housing. The requirement in the present law that a house should be occupied at least 6 months before the owner is eligible for a title I loan was not intended to prevent assistance to homeowners in cases of disasters. It was enacted to prevent certain abuses of the title I program, such as using a title I loan for the downpayment on a home. Authority to waive the 6 months' occupancy requirement where the housing has been damaged by major disasters will provide an additional method of assistance to disaster victims but preserve the provision for its original purpose of preventing abuses of the title I program.

This Agency therefore requests enactment of Senate Joint Resolution 113 as soon as possible so that this assistance can be made available promptly in the current disaster on the west coast and in any future major disasters. The Bureau of the Budget has advised that the joint resolution is without objection insofar as it is concerned.

Sincerely yours,

ALBERT M. COLE, *Administrator.*

SUMMARY

This joint resolution enables owners of new residential structures, without respect to the present requirements of occupancy, to obtain Federal assistance under the title I home-repair program to repair disaster-connected damage to their homes. We believe this joint resolution is in the public interest and we further believe it does not affect materially the basic intent which the Congress had in restricting the title I home-improvement program in the Housing Act of 1954. We recommend approval of Senate Joint Resolution 113.

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Calendar No. 1427

84TH CONGRESS, 2d Session — SENATE — REPORT No. 1407

AUTHORIZING THE TRANSFER OF WAR HOUSING PROJECTS TO THE CITY OF MOSES LAKE, WASH., AND TO OTHER COMMUNITIES SIMILARLY SITUATED

JANUARY 19 (legislative day, JANUARY 16), 1956.—Ordered to be printed

Mr. SPARKMAN, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 6298]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 6298) to amend section 601 (g) of the act entitled "An act to expedite the provision of housing in connection with national defense, and for other purposes," approved October 14, 1940, as amended, to permit transfer of war-housing projects to the city of Moses Lake, Wash., and to other communities similarly situated, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

EXPLANATION OF BILL

This bill will permit the transfer of war-housing projects to the city of Moses Lake, Wash., and to other communities similarly situated. The property involved at Moses Lake consists of 172 temporary family dwelling units constructed under the Lanham Act and identified as WASH–45206 and WASH–V 45402. These housing units are under the jurisdiction of the Housing and Home Finance Agency and are managed by the Housing Authority of Grant County, Wash.

The Housing Act of 1950 added a new title VI to the Lanham Act and provided for the disposition of war-housing units owned by the Government. Section 601 (b) authorized the Housing Agency to transfer without charge temporary war-housing units to the city or town in which the units are located.

The Congress decided that certain temporary housing in the city of Richmond, Calif., should be transferred to the local public agency organized for slum clearance and community redevelopment rather

than to any other agency of the city. Section 601 (g) of the Lanham Act was written to accomplish this purpose. However, instead of naming the city of Richmond, Calif., as the sole locality to which this specific restriction should apply, section 601 (g) states that the restriction shall apply in the case of any city where the total population by the 1940 census is less than the number of persons living in temporary housing on December 31, 1948.

Whereas the restriction in section 601 (g) was intended to apply only to Richmond, Calif., it is now discovered that it also applies to the city of Moses Lake., Wash. Under the law, therefore, the temporary units in the city of Moses Lake cannot be transferred to the city but must be transferred to a local slum clearance authority—and the city of Moses Lake does not have such a local public body.

Under the provisions of H. R. 6298, it is proposed to remove this restriction, not only as to Moses Lake, Wash., which does not have a qualified local public agency to accept transfer of this property, but to other communities similarly situated, by adding the following language at the end of section 601 (g) of title VI:

> If at the time of the relinquishment or transfer there is in existence in such a municipality a local public agency organized specifically and solely for the purpose of slum clearance and community redevelopment.

In addition to H. R. 6298, there was also pending before the Senate Committee on Banking and Currency another bill, S. 2073, which would permit the transfer of these temporary housing units to the city of Moses Lake, Wash., notwithstanding the provisions of subsection (g) of section 601 of the Lanham Act. In commenting upon S. 2073, Albert M. Cole, Administrator of the Housing and Home Finance Agency, by letter dated July 13, 1955, to the chairman of the Subcommittee on Housing of the Senate Committee on Banking and Currency, while expressing his agreement with the objective of this bill, recommended that section 601 (g) be amended in either of the two following ways:

One:

> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That subsection 601 (g) of the Act entitled "An Act to expedite the provision of housing in connection with national defense, and for other purposes", approved October 14, 1940, as amended, is hereby amended to read as follows: "(g) Notwithstanding the provisions of subsection (b) of this section, temporary housing located in Richmond, California, may be relinquished and transferred pursuant to that subsection, only to The Redevelopment Agency of the City of Richmond".

Two:

> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That subsection 601 (g) of the Act entitled "An Act to expedite the provision of housing in connection with national defense, and for other purposes," approved October 14, 1940, as amended, is hereby amended by striking the period at the end thereof and adding the following: "if at the time of the relinquishment or transfer there is in existence in such a municipality a local public agency organized specifically and solely for the purpose of slum clearance and community redevelopment".

Inasmuch as H. R. 6298 is identical with the second proposal suggested by the Administration and since this proposal accomplishes the objective of S. 2073, not only for the community of Moses Lake, but also for any other community similarly situated, your committee recommends approval of H. R. 6298.

SUMMARY

It seems clear that the city of Moses Lake, Wash., and perhaps other communities, have been inadvertently prevented from acquiring temporary housing units constructed under the provisions of the Lanham Act. This was not the intention of Congress in enacting section 601 (g) of the Lanham Act. This inadvertence can be cured for the city of Moses Lake, Wash., either by S. 2073 or H. R. 6298. However, since H. R. 6298 has already been passed by the House of Representatives, and since the method adopted in that bill would also remove the restriction from any other cities which may have been inadvetently affected by section 601 (g), the approval of H. R. 6298 would seem to be the preferable action. We believe that H. R. 6298 is in the public interest and recommend its approval without amendment.

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